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## 1979 annual report



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gregory industries limited





## DIRECTORS' REPORT TO THE SHAREHOLDERS

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Record net earnings for the year ended December 31, 1979 were \$2,249,101 (\$2.59 per share) on record sales of \$30,214,765 compared with net earnings of \$1,825,018 (\$1.83 per share) on sales of \$24,733,715 for the previous year ended December 31, 1978. There were no extraordinary gains in 1979. An extraordinary gain of \$127,000 resulting from a reduction of deferred income taxes on application of prior years' losses raised final profit in 1978 to \$1,952,018 (\$1.96 per share).

In 1979, the outstanding shares, net of the 323,000 shares held by the subsidiary, remained constant during the year at 869,428 shares. In 1978, the earnings per share figures were computed by using the weighted average number of common shares outstanding of 994,646 shares net of shares held by the subsidiary.

Cash flow from operations was \$2,859,295 in 1979 compared with \$2,600,163 in 1978. Working capital increased to \$3,562,955 at December 31, 1979 from \$2,430,940 at December 31, 1978.

All Company Divisions were profitable, exceeding their budgets for 1979. These outstanding earnings resulted from record high selling prices combined with the benefits accruing from the Company's ongoing policy of improving plant and equipment, and the Company's sales diversification. During 1979, the Company maintained this market diversity with 65% of total production going overseas, 18% going to the U.S., and 17% sold domestically. This compared with 65% of total production going overseas, 20% going to the U.S., and 15% sold domestically in 1978.

Updating and modernization of existing plants is continuing with the Paneling Division's \$4,000,000 new plant expansion in Delta, B.C. and Acorn Forest Products Division's \$3,000,000 capital improvements at its Delta, B.C. sawmill. Both constructions are proceeding on schedule and should make a contribution to 1980 earnings. Term financing for both projects was arranged with the Company's bankers, The Royal Bank of Canada.

The Company maintained its quarterly dividend policy throughout 1979 with 5¢ March 1, 7¢ June 1, 7¢ September 1, 7¢ December 1, and in addition paid out a special 7¢ dividend on January 15, 1980. The quarterly dividend was raised to 8¢ as of March 1, 1980.

The record results of 1979 could not have been accomplished without the contribution of each Company employee. They are to be congratulated for their efforts. As at December 31, 1979, the Company employed 275 people compared with 262 people at December 31, 1978. Wages, salaries and benefits paid to employees for 1979 totaled \$5,982,995 compared with the 1978 total of \$4,975,606.



The outlook for the first half of 1980 is clouded by high interest rates, however, operating results are expected to be satisfactory. Economic conditions in the second half are not expected to improve but the Company should benefit from the completion of major capital projects.

In addition to these major projects, the Company will be proceeding with a number of smaller projects aimed at keeping the mills at a high level of efficiency. These improvements in conjunction with the ongoing development of new markets and product lines will put the Company in an excellent position to take advantage of the growth expected in the coming years.

Respectfully submitted on behalf of the Board,

Peter J. Gregory,  
Chairman

March, 1980





## gregory industries limited

### Consolidated Statement of Earnings and Earnings Reinvested in the Business Year ended December 31, 1979

	1979	1978
<b>Sales</b>	<b>\$30,214,765</b>	<b>24,733,715</b>
<b>Expenses and charges:</b>		
Cost of lumber sold	20,989,365	16,952,378
Selling and administration	4,672,682	4,104,186
Depreciation and amortization	348,162	261,982
Interest on long-term debt	182,887	129,603
Other interest	152,536	94,345
Gain on disposal of property, plant and equipment	(24,968)	(73,837)
	<u>26,320,664</u>	<u>21,468,657</u>
<b>Earnings before income taxes and extraordinary item</b>	<b>3,894,101</b>	<b>3,265,058</b>
<b>Income taxes:</b>		
Current	1,358,000	853,040
Deferred	287,000	587,000
	<u>1,645,000</u>	<u>1,440,040</u>
<b>Earnings before extraordinary item</b>	<b>2,249,101</b>	<b>1,825,018</b>
Deferred income tax reduction on application of prior years' losses	—	127,000
<b>Net earnings for the year (Note 8)</b>	<b>2,249,101</b>	<b>1,952,018</b>
Earnings reinvested in the business at beginning of year	<u>3,689,921</u>	<u>1,832,924</u>
	<u>5,939,022</u>	<u>3,784,942</u>
<b>Dividends paid</b>	<b>226,051</b>	<b>95,021</b>
<b>Earnings reinvested in the business at end of year (Note 6)</b>	<b>\$ 5,712,971</b>	<b>3,689,921</b>



**Consolidated Statement of Changes in Financial Position**  
**Year ended December 31, 1979**

	<u>1979</u>	<u>1978</u>
<b>Funds provided:</b>		
From current operations:		
Earnings before extraordinary item	<b>\$ 2,249,101</b>	1,825,018
Add items not involving funds	<u>610,194</u>	<u>775,145</u>
<b>Funds provided by current operations</b>	<b>2,859,295</b>	2,600,163
Long-term debt financing	<b>1,379,600</b>	958,324
Reduction of loans due from officers	<b>58,413</b>	—
Proceeds from disposal of property, plant and equipment	<b>34,129</b>	184,381
Issue of shares	—	403,750
Decrease in investments and other assets	<u>18,684</u>	<u>—</u>
<b>Total funds provided</b>	<b>4,350,121</b>	4,146,618
<b>Funds applied:</b>		
Dividends	<b>226,051</b>	95,021
Increase in investments and other assets	—	10,977
Purchase of property, plant and equipment	<b>2,045,598</b>	849,886
Reduction of long-term debt	<b>946,457</b>	354,920
Purchase of shares in Gregory Industries Limited	—	807,500
Loans to officers	—	370,773
<b>Total funds applied</b>	<b>3,218,106</b>	2,489,077
<b>Increase in working capital</b>	<b>1,132,015</b>	1,657,541
Working capital at beginning of year	<u>2,430,940</u>	<u>773,399</u>
<b>Working capital at end of year</b>	<b>\$ 3,562,955</b>	<u>2,430,940</u>





## gregory industries limited

### Consolidated Balance Sheet December 31, 1979

<b>Assets</b>	<b><u>1979</u></b>	<b><u>1978</u></b>
<b>Current assets:</b>		
Cash	\$ 10,000	11,548
Accounts receivable	1,978,855	2,556,168
Inventories (Note 2)	5,688,083	4,035,425
Prepaid expenses and deposits	<u>393,037</u>	<u>400,863</u>
Total current assets	8,069,975	7,004,004
<b>Investments and other assets, at cost</b>	<b>32,688</b>	51,372
<b>Loans to officers (net of current portion of \$26,917)</b>	<b>312,360</b>	370,773
<b>Property, plant and equipment (Note 3)</b>	<b><u>4,143,353</u></b>	<u>2,455,078</u>
	<b><u>\$12,558,376</u></b>	<u>9,881,227</u>

#### AUDITORS' REPORT TO THE SHAREHOLDERS

We have examined the consolidated balance sheet of Gregory Industries Limited as at December 31, 1979 and the consolidated statements of earnings and earnings reinvested in the business and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the company as at December 31, 1979 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Vancouver, British Columbia, Canada  
February 25, 1980

*Leat, Marwick, Mitchell & Co.*  
Chartered Accountants

<b>Liabilities</b>	<b>1979</b>	<b>1978</b>
<b>Current liabilities:</b>		
Bank indebtedness (Note 4)	\$ 1,200,150	1,496,281
Bankers' acceptance payable	500,000	—
Accounts payable and accruals	1,842,319	1,962,457
Income and logging taxes payable	736,731	823,688
Long-term debt due within one year	227,820	290,638
Total current liabilities	4,507,020	4,573,064
<b>Long-term debt</b> (Note 5)	1,594,921	1,161,778
<b>Deferred income taxes</b>	747,000	460,000
<b>Shareholders' equity:</b>		
<b>Share capital:</b>		
Common shares of no par value.		
Authorized 2,040,000 shares;		
issued 1,192,428 shares	803,964	803,964
<b>Earnings reinvested in the business</b>		
(Note 6)	5,712,971	3,689,921
	6,516,935	4,493,885
Less cost of 323,000 shares		
held by subsidiary	(807,500)	(807,500)
Net shareholders' equity	5,709,435	3,686,385
	<u>\$12,558,376</u>	<u>9,881,227</u>

On behalf of the Board:

*Peter J. Gregory*

Director

*F. R. Liven*

Director

Commitments (Note 7).

See accompanying notes to consolidated financial statements.





## gregory industries limited

### Notes to Consolidated Financial Statements

December 31, 1979

#### 1. Significant accounting policies:

##### *Principles of consolidation:*

The consolidated financial statements include the accounts of the company and its operating subsidiary, Gregory Manufacturing Limited and its non-operating subsidiary, Anacortes Lumber, Inc.

All material inter-company transactions have been eliminated.

##### *Inventories:*

Inventories are valued at the lower of cost and net realizable value. Cost is determined on the first-in, first-out (FIFO) basis.

##### *Depreciation:*

Depreciation on property, plant and equipment has been recorded on the straight-line method over their estimated useful lives using the following rates:

Buildings, yards and dock	5%
Mill and office equipment	10%
Automotive equipment and boom boats	20%
Leasehold improvements	straight-line over the lease term

Additions and betterments are capitalized and expenditures for maintenance and repairs are charged to expense. When depreciable assets are retired or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts and the resulting gain or loss is reflected in earnings.

##### *Income taxes:*

The company follows the tax allocation basis of accounting for income taxes. Taxes deferred to future years as a result of claiming for tax purposes amounts different from those recorded in the accounts are charged against current earnings and are recorded in the balance sheet as deferred income taxes.

#### 2. Inventories:

Inventories are classified as follows:

	1979	1978
Logs	\$3,256,742	1,594,458
Lumber	2,377,621	2,435,207
Chips and sawdust	53,720	5,760
	<u>\$5,688,083</u>	<u>4,035,425</u>

#### 3. Property, plant and equipment:

At cost less depreciation and amortization:

	1979	1978
Buildings (including buildings on leased land)	\$ 946,784	838,494
Equipment	3,001,738	2,551,646
Leasehold improvements	45,400	44,122
	<u>3,993,922</u>	<u>3,434,262</u>
Less accumulated depreciation and amortization	<u>1,542,554</u>	<u>1,250,854</u>
	<u>2,451,368</u>	<u>2,183,408</u>
Construction in progress	859,030	—
Land	762,733	184,048
	<u>4,073,131</u>	<u>2,367,456</u>

At estimated net realizable value:

Buildings and equipment	70,222	87,622
Total property, plant and equipment	<u>\$4,143,353</u>	<u>2,455,078</u>

#### 4. Bank indebtedness:

The bank indebtedness is secured by an assignment of accounts receivable and a charge on inventories, together with a demand debenture giving a fixed charge on all property, plant and equipment and a floating charge on all other assets.



**5. Long-term debt:****1979****1978**

Loan agreements at interest rates varying from 11¼% to 15½%, repayable in monthly instalments and maturing at various dates to 1990; secured by debentures giving a fixed charge on specified property, plant and equipment and a floating charge on other assets

**\$1,785,750** 1,398,441

Other indebtedness and conditional sales contracts, repayable in monthly instalments, secured by charges on certain equipment

**36,991** 53,975**1,822,741** 1,452,416

Less amounts due within one year

**227,820** 290,638**\$1,594,921** 1,161,778

Maturities of long-term debt are as follows:

1980	\$227,820
1981	238,171
1982	206,800
1983	179,000
1984	185,000
1985 and later	785,950

Total interest on long-term debt paid during the year aggregated \$217,635 of which \$34,748 was capitalized as part of construction in progress.

**6. Dividends:**

Under the conditions of certain loan agreements the payment of dividends is subject to prior approval.

**7. Commitments:**

The company and its subsidiaries are obligated under operating lease agreements for aggregate basic annual rentals of approximately:

1980	\$136,000
1981	92,000
1982	76,000
1983	63,000
1984	21,000

Expenditures required under the company's construction programme in Delta, B.C. (Paneling Division) totalled \$2,950,000 of which \$550,000 is still to be committed to complete the programme. In addition, a \$3,000,000 modernization programme of the Acorn mill has been approved, however, no funds had been committed at December 31, 1979. Financing has been arranged for these projects.

**8. Earnings per common share:**

In 1978 the earnings per share figures were computed by using the weighted average number of common shares outstanding of 994,646 shares, net of the 323,000 shares held by the subsidiary. In 1979 the outstanding shares, net of shares held by the subsidiary, remained constant during the year at 869,428 shares.

**1979****1978**

Net earnings per share before extraordinary item

**\$2.59**

1.83

Extraordinary Item

**—**

.13

Net earnings per share for the year

**\$2.59****1.96****9. Statutory information:**

The remuneration of directors and senior officers, as defined by the British Columbia Companies Act, amounted to \$339,108 (1978 — \$306,205).





## gregory industries limited

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### **Directors:**

WILLIAM E. DONNELLY\*, *Consultant*  
W. GRANT GERRARD\*, *Secretary, Gregory Industries Limited*  
PETER J. GREGORY, *Chairman of the Board, Gregory Industries Limited*  
GEORGE L. MALPASS, *President, Gregory Industries Limited*  
C. RANN MATTHISON\*, *Consultant*  
PAUL D. RIVERS, *Treasurer, Gregory Industries Limited*  
JOHN P. SULLIVAN, *Mill Manager, Acorn Forest Products Division*

\* *Member of Audit Committee*

### **Officers:**

PETER J. GREGORY, *Chairman of the Board and Chief Executive Officer*  
GEORGE L. MALPASS, *President and Chief Operating Officer*  
PAUL D. RIVERS, *Treasurer and Chief Financial Officer*  
W. GRANT GERRARD, *Secretary*

### **Registrar and Transfer Agent:**

THE CANADA TRUST COMPANY, *Vancouver, B.C.*

### **Shares Listed:**

VANCOUVER STOCK EXCHANGE

### **Banker:**

THE ROYAL BANK OF CANADA

### **Solicitors:**

McTAGGART, ELLIS & COMPANY, *Vancouver, B.C.*

### **Auditors:**

PEAT, MARWICK, MITCHELL & CO., *Vancouver, B.C.*

### **Head Office:**

1283 - 595 Burrard Street,  
P.O. Box 49172, Bentall Centre,  
Vancouver, B.C. V7X 1K8  
Tel. (604) 687-9651

### **Registered Office:**

St. 800 - 885 Dunsmuir Street,  
Vancouver, B.C. V6C 1P2

### **Wholly Owned Subsidiary Companies:**

GREGORY MANUFACTURING LIMITED —

ACORN FOREST PRODUCTS DIVISION,  
Delta, B.C.  
FIELD SAWMILLS DIVISION,  
Courtenay, B.C.  
PANELING DIVISION,  
Burnaby, B.C.

ANACORTES LUMBER INC., Anacortes, Washington, U.S.A.







